

# House Study Bill 568 - Introduced

HOUSE FILE \_\_\_\_\_

BY (PROPOSED COMMITTEE ON  
ECONOMIC GROWTH/REBUILD  
IOWA BILL BY CHAIRPERSON  
GRASSLEY)

## A BILL FOR

1 An Act relating to the exclusion from the computation of net  
2 income for the individual state income tax of net capital  
3 gains from the sale of a business and including retroactive  
4 applicability provisions.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.7, subsection 21, paragraph a, Code  
2 Supplement 2011, is amended to read as follows:

3 a. (1) (a) Net capital gain from the sale of real  
4 property used in a business, in which the taxpayer materially  
5 participated for ten years, as defined in section 469(h)  
6 of the Internal Revenue Code, and which has been held for  
7 a minimum of ten years, or from the sale of a business, as  
8 defined in section 423.1, in which the taxpayer materially  
9 participated for ten years, as defined in section 469(h) of the  
10 Internal Revenue Code, and which has been held for a minimum  
11 of ten years. ~~The sale of a business means the sale of all or~~  
12 ~~substantially all of the tangible personal property or service~~  
13 ~~of the business.~~

14 (b) ~~However, where the business is sold~~ If the sale of the  
15 business in subparagraph division (a) is made to individuals  
16 who are all lineal descendants of the taxpayer, the taxpayer  
17 does not have to have materially participated in the business  
18 in order for the net capital gain from the sale to be excluded  
19 from taxation.

20 (2) ~~However, in~~ In lieu of the net capital gain deduction  
21 in this paragraph and paragraphs "b", "c", and "d", ~~where the~~  
22 ~~business is sold~~ if the sale of the business in subparagraph  
23 (1) is made to individuals who are all lineal descendants of  
24 the taxpayer, the amount of capital gain from each capital  
25 asset may be subtracted in determining net income.

26 ~~(2)~~ (3) For purposes of this paragraph, unless the context  
27 otherwise requires:

28 (a) ~~"lineal"~~ "Lineal descendant" means children of the  
29 taxpayer, including legally adopted children and biological  
30 children, stepchildren, grandchildren, great-grandchildren, and  
31 any other lineal descendants of the taxpayer.

32 (b) "Sale of a business" means the sale of all or  
33 substantially all of the tangible personal property, intangible  
34 property, or service of the business, or the sale of all  
35 or substantially all of the stock or equity interests

1 in the business, whether the business is held as a sole  
2 proprietorship, corporation, partnership, joint venture, trust,  
3 limited liability company, or another business entity.

4 Sec. 2. RETROACTIVE APPLICABILITY. This Act applies  
5 retroactively to January 1, 2012, for tax years beginning on  
6 or after that date.

7 EXPLANATION

8 This bill relates to the taxation of net capital gains from  
9 the sale of a business.

10 This state provides an exclusion from the computation of net  
11 income for the individual state income tax of any net capital  
12 gains realized from the sale of a business if the taxpayer held  
13 the business for at least 10 years and materially participated  
14 in the business for at least 10 years.

15 Under current law, "sale of a business" is defined as the  
16 sale of all or substantially all of the tangible personal  
17 property or service of the business. The bill expands the  
18 definition to include intangible property, or the sale of  
19 all or substantially all of the stock or equity interests  
20 in the business, whether the business is held as a sole  
21 proprietorship, corporation, partnership, joint venture, trust,  
22 limited liability company, or another business entity.

23 The bill applies retroactively to January 1, 2012, for tax  
24 years beginning on or after that date.